

CITY OF MOXEE
Yakima County, Washington
January 1, 1992 Through December 31, 1993

Schedule Of Findings

1. Local Improvements Should Be Administered In Accordance With Legal Requirements

During our audit, we noted that in 1993 the city administered a construction project for utility and street improvements benefiting several privately owned properties adjoining Tacoma Street. Per our review of city records and inquiry of city personnel we determined that city council did not adopt a resolution or ordinance to authorize the project or document the basis used to levy costs against the benefited properties.

City records support that approximately \$17,665 of the project's \$26,387 cost was billed to the property owners. As of July 1994, the city had received approximately \$9,564 from the property owners.

RCW 35.43.070 states in part:

A local improvement may be ordered only by an ordinance of the city or town council, pursuant to a resolution or petition therefor. The ordinance must receive the affirmative vote of at least a majority of the members of the council

Additionally, RCW 35.43.080 states in part:

Every ordinance ordering a local improvement to be paid in whole or in part by assessments against the property specially benefited shall describe the improvement and establish a local improvement district . . . which shall embrace as nearly as practicable all the property specially benefited by the improvement. (Emphasis ours.)

This project occurred under the direction of the former mayor and city supervisor. Reportedly there were discussions with some of the affected property owners, but formal approval of the city council was not sought.

The above conditions result in the city's failure to comply with the statutes cited and an inability to demonstrate that assessments to property owners were made on an equitable basis.

We recommend that the city council administer future local improvements in accordance with statutory requirements.

2. Accounting System Internal Controls Should Be Improved

Similar to the 1991 audit, our audit of the financial statements for 1993 and 1992 also revealed material internal control weaknesses in the accounting controls and the control structure. These weaknesses included the following:

- a. The check register was not being maintained on a current basis.
- b. Bank statements had not been reconciled to the check register monthly.
- c. The cash and investment balances in the accounting records had not been reconciled to the bank.
- d. The subsidiary ledgers were not being reconciled to the general ledger monthly.
- e. Check disbursements posting were incomplete and contained numerous errors.
- f. Annual budgets were incorrectly prepared. Investment purchases and ending cash were incorrectly classified budgeted expenditures.
- g. Preprinted documents were not being used to ensure accountability over receipts.
- h. Financial reports were not submitted to the city council during 1993 or 1992.
- i. Accounting personnel did not have a sufficient understanding of the computerized accounting system to operate and maintain the system accurately.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees or other persons.

The accounts shall show the receipt, use, and disposition of all public income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

The American Institute of Certified Public Accountants (AICPA) *Statement on Auditing Standards*, Section 319.69(2) states:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize, and report financial data that is consistent with management's assertions embodied in the financial statements, some of the specific objectives management may wish to consider to include the following:

Transactions are executed in accordance with management's general or specific authorization.

Transactions are recorded as necessary (1) to permit

preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) maintain accountability for assets.

Access to assets is permitted only in accordance with management's authorization.

The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

The absence of adequate systems to assure the accuracy of the financial statements constitutes a material internal control weakness whereby errors or irregularities could occur and not be detected in a timely fashion. Further, inaccurate financial reporting impacts the users of those statements and the decisions they make. This includes citizens, grantors, lenders, and city management. Additionally, inadequate records cause increased audit costs.

Because of the material weaknesses in the internal control structure, the financial records contained numerous errors. As a result, the city hired an outside consultant in 1993 to reconstruct the financial records and help implement the needed changes to the city's internal control structure. In addition, city officials have opted to change the accounting software and are making an effort to ensure the staff are adequately trained.

We again recommend that city officials establish and maintain an effective system of internal controls by:

- a. Providing adequate training and supervision to the accounting personnel
- b. Monitoring implementation of accounting software.
- c. Reconcile cash and investment accounts on a regular basis.

3. Utility Customers Should Be Billed In Accordance With City Ordinances

During our audit of the city's water-sewer utility billing system we determined that from July 1991 through November 1992, numerous multi-family residences and commercial customers were improperly charged for utility services. These accounts were charged at rates established for single family residences, rather than at specially factored rates which considered impacts on the utility system.

Ordinance Nos. 446 and 452, which were effective during this period, prescribed the use of these specially factored rates for multi-family residence and commercial customers.

These billing errors resulted because customer master files were not properly updated in June 1991, when a conversion was made in the city's utility billing software. In December 1992, customer master files were corrected and the appropriate utility rates were charged.

As a result of the improper billings, we estimate the city's water-sewer utility lost revenues of approximately \$8,000 for sewer services and \$1,000.00 for water service.

We recommend that city officials review utility billing registers from June 1991 through November 1992, and prepare billing adjustments for all customers who were improperly charged.

4. Expenditures Should Be Limited To Appropriations

In the prior audit of the city, we noted that numerous funds had incurred expenditures in excess of authorized appropriations. During the current audit of the city, we again noted this condition, as follows:

<u>Fund</u>	<u>Authorized Appropriation</u>	<u>Actual Expenditures</u>	<u>Over Expenditure</u>
<u>1992</u>			
Current Expense	\$279,323	\$291,131	\$11,808
Street	30,285	32,615	2,330
Economic Development	9,197	9,922	725
<u>1993</u>			
Current Expense	\$312,500	\$400,749	\$88,249
Street	35,300	38,732	3,432
Economic Development	42,835	55,323	12,488

The incurring of expenditures in excess of appropriations is contrary to the provisions of RCW 35A.33.120, which states in part:

The expenditure as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing fiscal year . . . The expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

(1) The total amount appropriated for each fund in the budget for the current fiscal year . . .

(4) Funds received in excess of estimated revenues during the current fiscal year, when authorized by an ordinance amending the original budget . . . (Emphasis ours.)

In addition, RCW 35A.33.125 states in part:

. . . The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund . . .

The above conditions resulted because city officials did not adequately monitor the amount of expenditures versus appropriations.

Failure to properly monitor these requirements hinders the city's management of available resources.

We again recommend that city officials ensure that expenditures are limited to the amount of authorized appropriations in accordance with statutory requirements.